

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Crescent City Connection Division
Department of Transportation and Development
State of Louisiana
New Orleans, Louisiana

May 16, 2001



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
New Orleans, Louisiana**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended October 31, 2000
With Supplemental Information Schedules**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

May 16, 2001

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended October 31, 2000
With Supplemental Information Schedules

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Contents, October 31, 2000

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DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 11, 2001,
Except for the finding in Exhibit B titled
"Management's Failure to Enforce Contract Performance," dated May 11, 2001

Independent Auditor's Report on
the Financial Statements

CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
New Orleans, Louisiana

We were engaged to audit the accompanying general purpose financial statements of the Crescent City Connection Division, a division of the Louisiana Department of Transportation and Development, as of and for the year ended October 31, 2000, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of management of the Crescent City Connection Division.

The division's accounting records were not complete and contained inadequacies. Management could not represent to us that all revenues from toll collections or that all tag deposits were accounted for and recorded accurately in the accounting records. Furthermore, the amount of toll tag sales resulting in deferred revenues was unknown and could not be accurately determined. These inadequacies made it impractical to apply sufficient audit procedures to enable us to express an opinion on the fair presentation of the accompanying general purpose financial statements.

As described in note 1-A to the general purpose financial statements, these general purpose financial statements do not include all of the activity of the Crescent City Connection Division, which should be included to conform with accounting principles generally accepted in the United States of America. Activities relating to such items as movable property, compensated absences, postemployment benefits, and certain federally funded capital outlay expenditures are reported separately with the Department of Transportation and Development, State of Louisiana. These general purpose financial statements include only those activities as outlined in the notes to the financial statements.

As described in note 1-E to the general purpose financial statements, the Crescent City Connection Division adopts budgets for all Federal Transit Administration projects. However, the budget of the General Fund is included with the budget of the Department of Transportation and Development, State of Louisiana. The Crescent City Connection Division did not prepare actual and budget comparisons at October 31, 2000, for the General Fund, and a comparison of revenues and expenditures to budget is not included in the accompanying financial statements.

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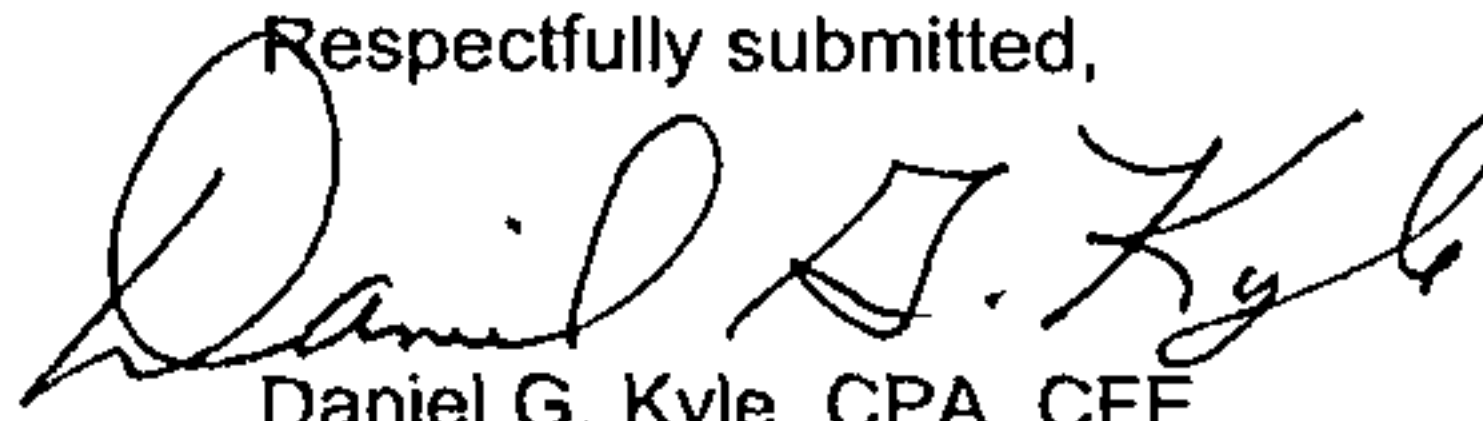
CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA

Audit Report, October 31, 2000

Because of the significance of the matters discussed in the second paragraph on page 3, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph or on the accompanying supplemental information schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2001, except for the finding in Exhibit B titled "Management's Failure to Enforce Contract Performance," dated May 11, 2001, on our consideration of the Crescent City Connection Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of attempting an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our engagement.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DL:JR:PEP:ss

[CCCD00]

UNAUDITED

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
ALL FUND TYPES AND ACCOUNT GROUPS**

Combined Balance Sheet, October 31, 2000

	GOVERNMENTAL FUND TYPES			
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECT FUND
ASSETS AND OTHER DEBITS				
Assets:				
Cash and cash equivalents		\$278,716		\$63,586
Investments	\$3,413	21,876,703	\$5,409,785	52,752,988
Accrued interest receivable	17	110,801	51,318	270,028
Due from other funds	2,172,773	65,270		
Bridge construction, ferry acquisition, bridge approaches and related structures				
Other Debits:				
Amount available for Debt Service Funds				
Amount to be provided for retirement of general long-term debt				
TOTAL ASSETS AND OTHER DEBITS	\$2,176,203	\$22,331,490	\$5,461,103	\$53,086,602
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$2,176,203			\$1,896,913
Tag deposits		\$1,193,603		
Accrued interest			\$839,778	
Bonds payable			1,300,000	
Due to other funds		2,172,773	65,270	
General obligations bonds payable				
Total Liabilities	2,176,203	3,366,376	2,205,048	1,896,913
Fund Equity:				
Investment in general fixed assets				
Fund balances:				
Unreserved		5,716,979		
Reserved for projects		13,248,133		51,189,688
Reserved for debt service			3,256,055	
Total Fund Equity	NONE	18,965,112	3,256,055	51,189,688
TOTAL LIABILITIES AND FUND EQUITY	\$2,176,203	\$22,331,488	\$5,461,103	\$53,086,601

The accompanying notes are an integral part of this statement.

Statement A

ACCOUNT GROUPS		
GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
		\$342,302
		80,042,889
		432,164
		2,238,043
\$241,991,745		241,991,745
	\$3,256,055	3,256,055
	20,788,945	20,788,945
<u>\$241,991,745</u>	<u>\$24,045,000</u>	<u>\$349,092,143</u>
		\$4,073,116
		1,193,603
		839,778
		1,300,000
		2,238,043
	\$24,045,000	24,045,000
<u>NONE</u>	<u>24,045,000</u>	<u>33,689,540</u>
\$241,991,745		241,991,745
		5,716,979
		64,437,821
		3,256,055
<u>241,991,745</u>	<u>NONE</u>	<u>315,402,600</u>
<u>\$241,991,745</u>	<u>\$24,045,000</u>	<u>\$349,092,140</u>

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
GOVERNMENTAL FUND TYPES**

**Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended October 31, 2000**

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECT FUND	TOTAL (MEMORANDUM ONLY)
REVENUES					
Interest on investments	\$2,538	\$553,007	\$329,061	\$3,341,757	\$4,226,363
Toll revenue		20,862,815			20,862,815
Scrip revenue - bridge and ferry		152,288			152,288
Ferry revenue		437,381			437,381
Highway Fund No. 2		5,286,766			5,286,766
Rental income and other income		57,500			57,500
Federal grants		500,000			500,000
Total revenues	<u>2,538</u>	<u>27,849,757</u>	<u>329,061</u>	<u>3,341,757</u>	<u>31,523,113</u>
EXPENDITURES					
Operational expenditures	14,808,057			14,054,979	28,863,036
Interest expense			1,679,555		1,679,555
Bonds redeemed			1,300,000		1,300,000
Premium on bonds			3,663		3,663
Bank charges	251	151,997	19,277	310,738	482,263
Total expenditures	<u>14,808,308</u>	<u>151,997</u>	<u>3,002,495</u>	<u>14,365,717</u>	<u>32,328,517</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>(14,805,770)</u>	<u>27,697,760</u>	<u>(2,673,434)</u>	<u>(11,023,960)</u>	<u>(805,404)</u>
OTHER FINANCING SOURCES (Uses)					
Operating transfers in	14,805,770	15,617,170	3,017,302	20,696,370	54,136,612
Operating transfers out		(38,497,247)	(261,015)	(15,378,350)	(54,136,612)
Total financing sources (uses)	<u>14,805,770</u>	<u>(22,880,077)</u>	<u>2,756,287</u>	<u>5,318,020</u>	<u>NONE</u>
EXCESS (Deficiency) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>NONE</u>	<u>4,817,683</u>	<u>82,853</u>	<u>(5,705,940)</u>	<u>(805,404)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>NONE</u>	<u>14,147,431</u>	<u>3,173,203</u>	<u>56,895,629</u>	<u>74,216,263</u>
FUND BALANCE AT END OF YEAR	<u>NONE</u>	<u>\$18,965,114</u>	<u>\$3,256,056</u>	<u>\$51,189,689</u>	<u>\$73,410,859</u>

The accompanying notes are an integral part of this statement.

UNAUDITED

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Notes to the Financial Statements
As of and for the Year Ended October 31, 2000

INTRODUCTION

The Crescent City Connection Division (the division), formerly known as the Mississippi River Bridge Authority, is a body politic and corporate of the State of Louisiana, incorporated under the authority of Act No. 7 of 1952, with power to acquire by purchase, lease, or otherwise, and to construct, improve, maintain, repair, and operate bridges and ferries across the Mississippi River in the City of New Orleans. Pursuant to the terms of the Reorganization Act of 1976, as amended, the Louisiana Department of Transportation and Development (DOTD), on July 1, 1977, assumed control of the operations of the then Mississippi River Bridge Authority. All of the functions of the authority's General Fund, including maintaining accounting records, issuance of all checks for payroll, operations, routine maintenance expenses and contractual obligations were transferred to DOTD on that date. In July 1988, the payment of the operating expenses of the then Mississippi River Bridge Authority again became the responsibility of the authority. However, except for collecting and depositing toll revenues, the accounting records are maintained by DOTD. In April 1992, the division issued \$30,860,000 of bonds under a Second Supplemental Agreement to the 1954 Indenture and Deed of Trust to construct additional Mississippi River crossings and to make additions or improvements to the bridge and its approaches. The division, domiciled in New Orleans, employed 241 people as of October 31, 2000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements do not reflect the total activities of the division. Many of the activities of the division such as movable property, compensated absences, and postemployment benefits are reported with DOTD, State of Louisiana, and are not readily separable from the records and accounts of DOTD. These financial statements reflect only the following activities:

- Debt service funds for the approaches to Mississippi River Bridge No. 2, administered by the Trustee, Bank One Trust Company, N.A., formerly the First National Bank of Commerce in New Orleans, in accordance with the Indenture and Deed of Trust dated as of November 1, 1954, as subsequently amended June 23, 1989, and April 1, 1992
- Collection of all tolls, Highway Fund No. 2 moneys and miscellaneous income
- Direct and allocated operating expenses incurred

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CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

- Capital projects funds and operating and maintenance expenditures reimbursed by Federal Transit Administration (FTA) grants
- Changes in the General Fixed Assets Account Group as they relate to the majority of the approaches to Bridge No. 2, ferries, and capital projects of the division
- Changes in the General Long-Term Debt Account Group as they relate to payments on bonds issued to finance the approaches to Mississippi River Bridge No. 2

Except for the omissions of those activities described previously, the accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The division is considered a component unit of the State of Louisiana because the state has financial accountability over the division in that the governor appoints the secretary of the Department of Transportation and Development and can impose his will on the division. The accompanying general purpose financial statements present information only as to the transactions of the Crescent City Connection Division, a component unit of the State of Louisiana.

Annually, the State of Louisiana issues a Comprehensive Annual Financial Report (CAFR), which includes the activity contained in the accompanying financial statements. The general purpose financial statement is audited by the Office of the Legislative Auditor.

C. FUND ACCOUNTING

The division uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Funds of the division are classified as governmental funds. Governmental funds account for the division's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. Governmental funds of the division include the following:

1. The General Fund is used for the purpose of accounting for the operating expenses of the bridge and ferries and the administrative expenses of the division. Transfers from special revenue funds provide the funds for these expenses.
2. Special Revenue Funds are used to account for the proceeds of specific revenue sources which by law are designated to finance particular functions or activities of the division.
3. Debt Service Funds account for the accumulation of resources for, and transactions relating to the payment of long-term debt, principal, interest and related costs.
4. The Capital Projects Fund accounts for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by the governmental funds. The governmental funds use the following practices in recording revenues and expenditures:

Revenues

Tolls paid at the toll booth and all scrip revenue are recorded when received. Prepaid tolls used in conjunction with a toll tag are recorded when measurable and available. Federal grants are recorded when the division is entitled to the funds. Highway Fund No. 2 revenues are recorded when due. Interest earnings are recorded when the income is earned. Other revenues are recognized when they become measurable and available.

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for accumulated annual and sick leave, which are recognized when paid, and principal and interest on general long-term debt, which are not recognized until due.

Other Financing Sources (Uses)

Other financing sources (uses), representing transfers between funds, that are not expected to be repaid, are recognized when they become measurable and available.

E. BUDGET PRACTICES

Budgets are prepared for all Federal Transit Authority (FTA) projects (Capital Projects Fund) based on estimated costs and are included in DOTD's budget for capital outlays. The budget for the General Fund is included with the budget of DOTD. Debt service funds are not subject to budget because all amounts are paid according to the trust agreement. Special revenue funds are also not subject to budget because most revenues are transferred to other funds. Therefore, a Statement of Revenues, Expenditures, and Changes in Fund Balances - Actual and Budget is not included in these financial statements.

F. CASH AND INVESTMENTS

Cash includes cash on hand, cash in State Treasury, and cash with paying agent. Under state law, the division may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

The Second Supplemental indenture dated April 1, 1992, authorizes the division to invest in direct United States obligations, United States government agency obligations (the principal and interest of which are fully guaranteed by the government of the United States), and direct and general obligations of the State of Louisiana. It also authorizes the division to invest in certificates of deposit of any state bank or national association whose headquarters are in the State of Louisiana, repurchase agreements, money market funds registered under the Federal Investment Company Act of 1940 (whose shares are registered under the Federal Securities Act of 1933), as amended and shares of an investment company organized under the Investment Company Act of 1940, as amended. Investments include Money Market funds invested in United States government securities, United States Treasury notes and obligations of United States governmental agencies that are stated at fair value as required by GASB 31.

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**G. FIXED ASSETS AND
LONG-TERM OBLIGATIONS**

Fixed assets of governmental funds are recorded as expenditures at the time purchased or constructed, and the related assets are capitalized (reported) in the general fixed assets account group. Public domain or infrastructures assets totaling \$241,991,745 are not capitalized but are disclosed in notes. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost.

Long-term obligations expected to be financed from governmental funds including long-term debt due after November 1 of the subsequent year are accounted for in the general long-term obligations account group, not in the governmental funds. Debt service obligations due the next day following the close of the fiscal year is recorded as a fund liability at year-end.

The account groups are not funds. They are concerned only with the measurement of financial position, not with measurement of results of operations.

H. COMPENSATED ABSENCES

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

The costs of current leave privileges are included in the operational expenditures on Statement B. The costs of leave privileges not requiring current resources are included in the notes of the annual fiscal report of DOTD.

**I. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The division provides certain continuing health care and life insurance benefits for its retired employees. The current costs of providing these retiree benefits are included in the operational expenditures on Statement B.

**J. FUND EQUITY - RESERVES AND
DESIGNATED FUND BALANCES**

Reserves represent those portions of fund equity not appropriable for expenditure and are legally segregated for a specific future use. Designated fund balances are those portions of fund equity set aside by the division for specific future use.

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

K. FEDERAL FUNDS

The Crescent City Connection Division follows DOTD guidelines to document compliance with federal laws and regulations. Federal Transit Authority (FTA) grants provide 80% federal funding for the capital project expenditures in the Capital Projects Fund and up to \$500,000 federal funding for operation and maintenance expenditures in the Special Revenue Funds. The capital project expenditures are paid by DOTD, who then receives 80% reimbursement directly from the FTA and is reimbursed the remaining 20% from the division. The operating and maintenance expenditures are paid by DOTD, who then receives reimbursement from the FTA or the division. FTA income and the corresponding expenditures that were funded for operations are reported by the division in Special Revenue Funds. FTA income and the corresponding expenditures that were funded for capital outlay are recorded and reported by DOTD and not recorded or reported by the division.

L. TOTAL COLUMNS ON STATEMENTS

Total columns on the combined statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with accounting principles generally accepted. Neither is such data comparable to a consolidation.

2. CASH

At October 31, 2000, the division has cash (book balances) totaling \$342,302. A summary of cash of the division follows:

Cash on deposit with the State Treasury	\$63,586
Cash on hand - toll collector change fund	4,700
Demand deposits with financial institutions	<u>274,016</u>
Total	<u><u>\$342,302</u></u>

Cash balances of \$63,586 held and controlled by the State Treasurer are secured from risk by the State Treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's general purpose financial statements. Cash on deposit with the State Treasurer is invested in various instruments in the pooled investment account of the State Treasurer. The investments are not identifiable by fund.

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Under state law, demand deposits with financial institutions must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. These deposits are stated at fair value. The fair value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At October 31, 2000, the division has \$126,293 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 (GASB Category 1). In addition, \$26,293 of pledged securities are held by the fiscal agent bank in the name of the division (GASB Category 2).

3. INVESTMENTS

At October 31, 2000, investments of the division total \$80,042,887, which is shown on Statement A. In accordance with GASB Codification Section 150.125, the various types of investments are listed and presented by category of credit risk assumed by the division. Category 1 represents those investments insured or registered in the division's name or securities held by the division or its agent in the division's name. Category 2 represents investments uninsured and unregistered with securities held by the counterparty's trust department or agent in the division's name. Category 3 represents investments unsecured and unregistered with securities held by the counterparty or by its trust department or agent but not in the division's name. A summary of investments of the division follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Government securities:					
United States Treasury Notes			\$248,908	\$248,908	\$248,908
Federal Home Loan Mortgage Corporation			296,807	296,807	296,807
Federal Home Loan Mortgage Association			995,767	995,767	995,767
Total government securities	<u>NONE</u>	<u>NONE</u>	<u>\$1,541,482</u>	1,541,482	1,541,482
Money market funds				<u>78,501,405</u>	<u>78,501,405</u>
Total investments				<u>\$80,042,887</u>	<u>\$80,042,887</u>

Investments of government securities reflected in the governmental funds and the internal service fund are stated at fair value as required by GASB Statement 31 when the difference between the carrying value and the fair value is substantial. The commission used quoted market values to determine the fair value of the investments.

The \$78,501,405 of money market funds consists of shares in investments in direct obligations of the United States Department of the Treasury. These investments are not required to be classified as to category of risk by GASB Codification Section 150.126.

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

4. RECEIVABLES

The division has receivables of \$432,163 at October 31, 2000. This amount represents income from investments earned before October 31, 2000, which was not received by the division until after October 31, 2000.

5. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance October 31, 1999	Adjustment to Beginning Balance	Additions	Deletions	Balance October 31, 2000
Bridge construction, ferry acquisitions, bridge approaches, and related structures	<u>\$202,762,886</u>	<u>\$24,612,506</u>	<u>\$14,616,353</u>	<u>NONE</u>	<u>\$241,991,745</u>

The adjustment to the beginning balance is to capitalize the capital project expenditures reimbursement by the federal government that have not been reported in previous years.

Changes and balances of furniture, fixtures, automobiles, and operating equipment are not reflected in these statements because they are included within DOTD's annual report.

6. RETIREMENT SYSTEM

Substantially all employees of the division are members of the Louisiana State Employees Retirement System (System), a cost-sharing, multiple-employer defined benefit pension plan. The System is a statewide public employee retirement system (PERS) for the benefit of state employees, which is administered and controlled by a separate board of trustees.

All full-time division employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5% of their highest consecutive 36 months' average salary multiplied by their years of credited service. Vested employees may retire at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

UNAUDITED

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Members are required by state statute to contribute 7.5% of gross salary, and the division is required to contribute at an actuarially determined rate as required by Louisiana Revised Statute 11:102. The contribution rate for the fiscal year ended October 31, 2000, was 13% of annual covered payroll, 12.3% for the fiscal year ended October 31, 1999, and 12.4% for the fiscal year ended October 31, 1998, which reflects the latest rate available for the division's fiscal year as the state has a June 30 fiscal year-end. The division's contributions to the System including employee contributions for the years ending October 31, 2000, 1999, and 1998, were \$1,068,427, \$983,688, and \$969,157, respectively, equal to the required contributions for each year.

7. CHANGES IN GENERAL LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended October 31, 2000:

	Bonded Indebtedness Payable at November 1, 1999	Additions	Retirements	Bonded Indebtedness Payable at October 31, 2000
Bridge Revenue Bonds - Series 1992	<u>\$25,345,000</u>	<u>NONE</u>	<u>\$1,300,000</u>	<u>\$24,045,000</u>

The bonds mature November 1, 2012, and accrue interest at rates of 5.25% to 6.75%. The bonds were issued to complete the approaches to Bridges No. 1 and No. 2. Maturities of long-term debt including interest payments of \$11,724,326 are as follows:

2001	\$2,980,255
2002	2,979,695
2003	2,982,400
2004	2,979,050
2005	2,979,075
Thereafter	<u>20,868,851</u>
Total	<u>\$35,769,326</u>

The division has accumulated a balance of \$3,256,055 dedicated to payment of bonds. Another \$20,788,945 is to be provided from future years' revenues dedicated to the payment of the bonds.

UNAUDITED

CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

8. RESERVED AND DESIGNATED
FUND BALANCES

As shown on Statement A, the division has reserved fund balances of \$42,504,970 and designated fund balances of \$30,826,415 at October 31, 2000. These balances are reserved or designated as follows:

Reserve for Operations - Monies are reserved in the Operating and Maintenance Special Revenue Fund for operations of the division. The amount of the reserve at October 31, 2000, is \$13,168,663.

Reserve for Debt Service - Monies are reserved in the debt service funds in accordance with the Second Supplemental Bond Indenture dated April 1, 1992. The amount of the reserve at October 31, 2000, is \$3,256,055.

Reserve for Construction - Monies are reserved in the Capital Projects Fund for incomplete projects. The amount of the reserve at October 31, 2000, is \$26,080,252.

Designated Fund Balances - The designated fund balance of the Revenue Fund in the Special Revenue Fund is \$5,716,979, which is designated for future capital projects. The remaining fund balance in the Capital Projects Fund for \$25,109,436 has also been designated for future capital projects.

A review of unexpended advances indicated that the \$33,996 balance is cash on deposit with the State Treasury that should be recorded and reported as CCCD cash. In prior years, CCCD recorded and reported the amount as both an expenditure and a liability. Furthermore, another \$38,500 cash on deposit with the State Treasury at October 31, 1999, had not been recorded or reported in previous years. Adjustments were made to the beginning fund balance of the Capital Projects Fund. This adjustment is reflected in the restated beginning balance as follows:

	Capital Projects Fund
Beginning Balance	\$56,789,137
Correction of prior year closing entry	33,996
Cash in State Treasury at October 31, 1999, not reported	72,496
	<hr/>
Beginning Balance - restated	<u>\$56,895,629</u>

UNAUDITED

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

9. LITIGATION AND CLAIMS

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by state General Fund appropriation and are not reflected in the accompanying general purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

On January 30, 1997, a judgment was rendered against the division in a case for \$1,837,263 plus interest and attorney fees. The division appealed the judgment to the Fourth Circuit Court of Appeals. A motion for new trial was denied on October 27, 2000. As of October 31, 2000, the final judgment against the State of Louisiana is approximately \$3,616,115, including interest but excluding cost. No provision for this liability has been made in these financial statements. The liability for this judgment is the responsibility of the Office of Risk Management under the state's self-insurance program.

10. DUE FROM/TO OTHER FUNDS

Individual fund balances due from/to other funds at October 31, 2000, are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$2,172,773	
Special Revenue Funds	65,269	\$2,172,773
Debt Service Funds		65,269
	<u> </u>	<u> </u>
Total	<u>\$2,238,042</u>	<u>\$2,238,042</u>

UNAUDITED

CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

11. OPERATING TRANSFERS IN/OUT

The bond indenture specifies the specific manner in which revenues are to be deposited and distributed to the various funds. All revenues, except interest earnings and grants identified in other funds, are to be deposited into the revenue fund. These revenues are then distributed to the various other funds in accordance with the provisions of the bond indenture. The distributions of these revenues are shown as operating transfers. The following is a summary of the operating transfers in and out for the year ended October 31, 2000:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$14,805,771	
Special Revenue Funds:		
Revenue Fund	238,820	\$23,517,926
Operating and Maintenance Fund	15,316,489	14,805,771
Toll Tag Deposit Fund	61,860	173,550
Debt Service Funds:		
Reserve Fund	2,860	195,746
Sinking Fund	1,330,873	
Interest Fund	1,683,569	65,269
Capital Projects Fund	<u>20,696,370</u>	<u>15,378,350</u>
Total	<u>\$54,136,612</u>	<u>\$54,136,612</u>

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**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended October 31, 2000**

SPECIAL REVENUE FUNDS

REVENUE FUND

The Revenue Fund accounts for all revenues collected by the division except for investment income identified in other funds and grants.

OPERATING AND MAINTENANCE FUND

The Operating and Maintenance Fund is used to account for funds dedicated to the operating and maintenance of the bridges and ferries. Amounts appropriated by the legislature each year are transferred into this fund from the Revenue Fund. The cost of operations and maintenance are transferred out to the General Fund.

TOLL TAG DEPOSIT FUND

The Toll Tag Deposit Fund is used to account for all deposits made on toll tags issued. These deposits are refundable upon return of the toll tag device.

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
SPECIAL REVENUE FUNDS**

Combining Balance Sheet, October 31, 2000

	REVENUE FUND	OPERATING AND MAINTENANCE FUND	TOLL TAG DEPOSIT FUNDS	TOTAL
ASSETS				
Cash and cash equivalents	\$274,016	\$4,700		\$278,716
Investments	5,349,346	15,260,719	\$1,266,638	21,876,703
Accrued interest receivable	28,348	76,017	6,436	110,801
Due from other funds	65,270			65,270
TOTAL ASSETS	\$5,716,980	\$15,341,436	\$1,273,074	\$22,331,490
LIABILITIES AND FUND EQUITY				
Liabilities:				
Tag deposits			\$1,193,603	\$1,193,603
Due to other funds		\$2,172,773		2,172,773
Total Liabilities	NONE	2,172,773	1,193,603	3,366,376
Fund Equity - fund balances:				
Unreserved	\$5,716,979			5,716,979
Reserved for projects		13,168,663	79,470	13,248,133
Total Fund Equity	5,716,979	13,168,663	79,470	18,965,112
TOTAL LIABILITIES AND FUND EQUITY	\$5,716,979	\$15,341,436	\$1,273,073	\$22,331,488

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended October 31, 2000**

	REVENUE FUND	OPERATING AND MAINTENANCE FUND	TOLL TAG DEPOSIT FUNDS	TOTAL
REVENUES				
Interest on investments	\$79,403	\$406,700	\$66,904	\$553,007
Toll revenue	20,862,815			20,862,815
Scrip revenue - bridge and ferry	152,288			152,288
Ferry revenue	437,381			437,381
Highway Fund No. 2	5,286,766			5,286,766
Rental income and other income	37,368		20,132	57,500
Federal grants		500,000		500,000
Total revenues	<u>26,856,021</u>	<u>906,700</u>	<u>87,036</u>	<u>27,849,757</u>
EXPENDITURES				
Bank charges	110,102	35,793	6,102	151,997
Total expenditures	<u>110,102</u>	<u>35,793</u>	<u>6,102</u>	<u>151,997</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>26,745,919</u>	<u>870,907</u>	<u>80,934</u>	<u>27,697,760</u>
OTHER FINANCING SOURCES (Uses)				
Operating transfers in	238,820	15,316,490	61,860	15,617,170
Operating transfers out	(23,517,926)	(14,805,771)	(173,550)	(38,497,247)
Total financing sources (uses)	<u>(23,279,106)</u>	<u>510,719</u>	<u>(111,690)</u>	<u>(22,880,077)</u>
EXCESS (Deficiency) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>3,466,813</u>	<u>1,381,626</u>	<u>(30,756)</u>	<u>4,817,683</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>2,250,166</u>	<u>11,787,038</u>	<u>110,227</u>	<u>14,147,431</u>
FUND BALANCE AT END OF YEAR	<u>\$5,716,979</u>	<u>\$13,168,664</u>	<u>\$79,471</u>	<u>\$18,965,114</u>

UNAUDITED

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended October 31, 2000**

DEBT SERVICE FUNDS

RESERVE FUND

The Reserve Fund is used to account for those funds restricted by the indenture to be used to pay bond principal and interest should the other funds not have sufficient funds to meet current obligations. The trustee is directed to use these funds to meet debt payments only if the Debt Service General Fund is exhausted.

SINKING FUND

The Sinking Fund is used to account for those expenditures made to liquidate current bond principal.

INTEREST FUND

The Interest Fund is used to account for expenditures related to the accrued interest on bonds.

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
DEBT SERVICE FUNDS**

Combining Balance Sheet, October 31, 2000

	RESERVE FUND	SINKING FUND	INTEREST FUND	TOTAL
ASSETS				
Investments	\$2,945,002	\$1,564,311	\$900,472	\$5,409,785
Accrued interest receivable	38,829	7,913	4,576	51,318
TOTAL ASSETS	<u>\$2,983,831</u>	<u>\$1,572,224</u>	<u>\$905,048</u>	<u>\$5,461,103</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Interest payable			\$839,778	\$839,778
Bonds payable		\$1,300,000		1,300,000
Due to other funds			65,270	65,270
Total Liabilities	NONE	1,300,000	905,048	2,205,048
Fund Equity - fund balance - reserved for debt service	<u>\$2,983,831</u>	<u>272,224</u>	<u>NONE</u>	<u>3,256,055</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$2,983,831</u>	<u>\$1,572,224</u>	<u>\$905,048</u>	<u>\$5,461,103</u>

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
DEBT SERVICE FUNDS**

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended October 31, 2000**

	RESERVE FUND	SINKING FUND	INTEREST FUND	TOTAL
REVENUES				
Interest on investments	\$183,404	\$78,017	\$67,640	\$329,061
EXPENDITURES				
Interest expenses			1,679,555	1,679,555
Bonds redeemed		1,300,000		1,300,000
Premuim on bonds	3,663			3,663
Bank charges	5,803	7,089	6,385	19,277
Total expenditures	9,466	1,307,089	1,685,940	3,002,495
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	173,938	(1,229,072)	(1,618,300)	(2,673,434)
OTHER FINANCING SOURCES (Uses)				
Operating transfers in	2,860	1,330,873	1,683,569	3,017,302
Operating transfers out	(195,746)		(65,269)	(261,015)
Total financing sources (uses)	(192,886)	1,330,873	1,618,300	2,756,287
EXCESS (Deficiency) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	(18,948)	101,801	NONE	82,853
FUND BALANCE AT BEGINNING OF YEAR	3,002,779	170,424	NONE	3,173,203
FUND BALANCE AT END OF YEAR	\$2,983,831	\$272,225	NONE	\$3,256,056

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 11, 2001,
Except for the finding in Exhibit B titled
"Management's Failure to Enforce Contract Performance," dated May 11, 2001

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the
Financial Statements

CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
New Orleans, Louisiana

We were engaged to audit the general purpose financial statements of the Crescent City Connection Division, a division of the Louisiana Department of Transportation and Development, as of and for the year ended October 31, 2000, as listed in the foregoing table of contents, and have issued our report thereon dated April 11, 2001, except for the finding in Exhibit B titled "Management's Failure to Enforce Contract Performance," dated May 11, 2001. Our audit was to have been conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, because of inadequacies in the division's accounting records, we were not able to apply the foregoing standards.

Compliance

As part of attempting to obtain reasonable assurance about whether the Crescent City Connection Division's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings in Exhibit B.

Other Compliance Matters

The Louisiana State Police arrested three former employees of the Crescent City Connection Division in connection with an alleged theft perpetrated in the toll collection section of the division. The Investigative Audit Division of the Office of the Legislative Auditor has performed an investigation of this allegation, as well as an alleged payroll fraud, and will issue its report in May 2001.

LEGISLATIVE AUDITOR

**CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

Compliance and Internal Control Report
Page 2

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Crescent City Connection Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of attempting to express an opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, because of inadequacies in the division's accounting controls and records, we were unable to form an opinion on the division's financial statements and related notes. In addition to the matter relating to noncompliance with certain provisions of laws, regulations, contracts, and grants, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Crescent City Connection Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings in Exhibit B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions included in Exhibit B, we consider all of the findings except for "Bank Account Not Reconciled to Accounting Records" to be material weaknesses.

This report is intended solely for the information and use of management of the Crescent City Connection Division, Department of Transportation and Development, and its trustee bank, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

DL:JR:PEP:ss
[CCCD00]



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 11, 2001,
Except for the finding in Exhibit B titled
"Management's Failure to Enforce Contract Performance," dated May 11, 2001

Findings on Compliance and on
Internal Control Over Financial Reporting

CRESCENT CITY CONNECTION DIVISION
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
New Orleans, Louisiana

**Compliance With Laws, Regulations,
Contracts, and Grants**

Failure to Enforce Toll Violation Law

The electronic toll collection system did not accurately report toll violations during the fiscal year ended October 31, 2000, because that function of the toll collection system was not fully implemented. As a result, the Crescent City Connection Division (CCCD) did not adequately enforce the toll violation law requiring drivers to pay proper tolls for motor vehicles and trailers that cross the bridge. Louisiana Revised Statute 47:820.5 requires motor vehicles driven or towed through a toll collection facility to pay the proper toll. An effective toll collection system should identify vehicles with drivers who do not pay the proper toll. Without this identification function, CCCD cannot enforce the law and collect the toll and/or violation fee.

Management should fully implement the violation function of the electronic toll collection system or develop alternative procedures to identify violators, enforce the law, and collect the toll and violation fees. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Internal Control Over Financial Reporting

Management's Failure to Enforce Contract Performance

The CCCD Integrated Electronic Toll Collection System (IETCS) has not worked properly since its implementation on January 1, 2000, resulting in the potential loss of toll revenues, increased risk of theft, and loss of revenue from toll violators who do not pay for crossing the bridge. As a result of the primary contractor's inability to provide a toll collection system by the due date, management of CCCD has elected to grant the primary contractor and a consultant three extensions to complete the IETCS, resulting in increased costs to the state. Prudent business practices and legal contractual responsibilities require management to adequately assess the probability of timely

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

Page 2

contractor performance and, if necessary, to take action to mitigate potential losses to the state.

CCCD entered into a \$2.7 million contract with TransCore, Inc., on May 25, 1999, to provide hardware, software, and experienced personnel to design, fabricate, assemble, construct, test, train, and install a viable toll system (IETCS). The installation was to provide for the integration of the existing toll collection system into the new IETCS to ensure a tested and operational IETCS before December 31, 1999. TransCore, Inc., failed to complete the provisions specified in the original contract dated May 25, 1999, as well as the provisions in subsequent contract extensions dated November 5, 1999 and June 28, 2000, which extended the completion date to December 31, 2000.

On December 29, 2000, CCCD granted TransCore, Inc., a third contract extension to May 31, 2001. As of April 11, 2001, the IETCS was still not fully functional, resulting in the continued risk of loss of toll revenue and theft. Management cannot determine the extent of undercollected toll revenues as a result of IETCS functionality problems. In addition, these system weaknesses resulted in our inability to audit the completeness of revenues for CCCD and impacted the audit opinion.

CCCD also contracted with Gulf Engineers and Consultants, Inc., (GEC) on September 29, 1998, for consulting work on the IETCS project. Mr. George A. Fischer, former Secretary of DOTD, is an officer of GEC. Initially, GEC was paid \$71,200 to develop and prepare the requirements and technical specifications to implement the IETCS for the CCCD Bridge and to evaluate bid proposals based on the technical specifications described in the Request for Proposal. In a supplemental agreement dated June 28, 1999, for an additional \$146,203, GEC was contracted to act as coordinator and liaison between CCCD and the contractor (TransCore, Inc.) with respect to the preparation, installation, approvals, sign-off and acceptance, monitoring contract schedules, coordination of efforts between the contractor and CCCD, and to describe and conduct all levels of testing. In addition, these services were to involve monitoring site fabrication, installation, quality assurance, verification, start-up of equipment hardware, software, and wiring. GEC was granted extensions on May 2, 2000, and again on June 28, 2000, because of extensions granted to TransCore, Inc., to complete the IETCS project. These extensions provide for GEC to be compensated for cost plus, not to exceed \$89,875, bringing the total contract with GEC to \$307,278.

As of April 2001, management has neither placed TransCore, Inc., in default nor terminated the GEC contract. Instead, management has continued to grant contract extensions. If the May 31, 2001, final contract performance date is not met, management should consider its legal remedies for contract nonperformance of TransCore, Inc., and GEC. Management should develop alternative procedures immediately to mitigate further losses of toll revenues, as well as violation revenues, and ensure accurate recording and reporting of those revenues. Management should

EXHIBIT B

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

Page 3

develop procedures for future contracts to ensure more timely action regarding contractor nonperformance. Management did not concur with the finding and stated that it "employed prudent business practices and effectively upheld the State's legal contractual responsibilities in adequately assessing the probability of timely contractor performance and that management undertook appropriate action to mitigate losses to the State . . ." (see Appendix A, page 8).

Additional Comments: As a result of the two contractors' inability to provide a fully operational toll collection system (IETCS) by January 1, 2000, CCCD could not document that all revenues reported were complete and accurate and did not enforce toll violations through at least April of 2001, which was the end of audit field work. DOTD/CCCD entered into a new contract with the consultant, GEC, on January 2, 2001, for additional costs of \$357,940 related to the IETCS, bringing the total commitment to GEC to \$665,218. An investigative audit relating to CCCD and the alleged theft of toll revenues will be issued in May 2001.

Incomplete Documentation for Toll Revenues

Documentation does not exist to support toll revenues of \$20,862,815, reported in the CCCD financial statements for the year ended October 31, 2000. Data entered in the electronic toll collection system manually by toll collectors and automatically by treadle count mechanisms, after December 31, 1999, could not be retrieved to provide management with assurances that toll revenues were complete. Adequate control over toll revenues requires the timely comparison of toll collector data entry and receipts to treadle count data to ensure completeness. CCCD does not have any evidence that toll revenues reported and cash receipts turned in by the toll collectors were complete and accurate because reports prepared by the electronic toll collection system were inaccurate. Toll revenues consist of cash collections and non-cash transactions, i.e., script, toll tags, law enforcement and emergency vehicle signature sheets, et cetera.

CCCD implemented a new electronic toll collection system on January 1, 2000. As of the audit date, the system has not prepared accurate reports. Part of this system includes the automatic treadle count. A treadle is a mechanism used to count axles of vehicles that pass through the Mississippi River Bridge tollbooths. This count of axles or treadle count is recorded electronically on a computer and identifies the particular lane and toll collector. The treadle count indicates how much revenue the toll collector should have collected. CCCD policies and procedures require the division's accounting section to perform a reconciliation of the treadle count to cash collected by the toll collectors; however, this was not possible because the system did not report accurately. CCCD management did not implement alternative procedures to reconcile toll revenues to treadle counts.

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

Page 4

Management should resolve the problems with the electronic toll collection system or develop alternative procedures to obtain documentation and assurance of the completeness of toll revenues. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

Lack of Documentation for Deferred Revenue

CCCD cannot determine or document the balance of deferred revenue at October 31, 2000, because the electronic toll collection system cannot provide a listing of patron account balances. The accounting system should provide management with accurate and complete reports of patron account balances for analysis and preparation of financial statements. Patrons pre-pay tolls using toll tags for trips across the bridge and save 60% off the regular price. The toll tag is encoded with the patron account number and, through an automated laser system, the balance is updated with each trip through the toll gate. Special lanes for toll tag patrons also expedite traffic flow. The amount of pre-paid tolls remaining in the patron accounts at October 31, 2000, represents deferred revenues. This amount was reported as zero in the financial statements, although an undetermined balance actually exists.

As a result of the division's inability to determine or document deferred revenue, liabilities reported in Statement A are understated and toll revenues reported in Statement B are overstated by an unknown amount because pre-payments are reported as revenue.

Management should modify the electronic toll collection system to determine and document deferred revenue in patron accounts. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

Incomplete Accounting Records for Patron Deposits

CCCD does not have a subsidiary listing of tag deposits supporting the general ledger account balance of \$1,193,603, as reported in the October 31, 2000, financial statements. Control over deposits includes ensuring the accuracy and completeness of transactions and reconciling the balance per the electronic toll collection system (subsidiary) to the general ledger. A \$10 deposit is collected for each toll tag and is recorded in individual patron accounts in the electronic toll collection system. The CCCD electronic toll collection system cannot generate a detailed listing or summary report of tag deposits that can be reconciled to the general ledger. Without these reports, management of the division cannot determine if deposit transactions recorded are complete or if the balance in the general ledger account is accurate.

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

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Management should modify the electronic toll collection system to provide a listing of tag deposits that reconciles to the general ledger account balance. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

Control Weaknesses Over Inventory of Toll Scrip

CCCD did not have adequate internal control over its inventory of toll scrip. Adequate internal control would include a perpetual inventory system and periodic physical counts to detect and correct errors timely and to safeguard assets from theft and abuse. Tests of the inventory of toll scrip reported as \$3,215,860 of revenue scrip and \$3,453,700 non-revenue (free) toll passes at October 31, 2000, disclosed the following deficiencies:

1. CCCD did not maintain a perpetual inventory of the additions or deletions of toll scrip. Management also did not perform periodic counts.
2. Tests of the physical inventory performed by CCCD on November 2, 2000, disclosed the following:
 - The inventory did not include \$637,500 of revenue scrip, 36,000 books of non-revenue scrip, and 183,200 books of obsolete scrip located at the Security Center.
 - The inventory did not include \$95,000 of revenue scrip located in the tag store.
 - The inventory did not indicate that the following scrip was missing: one book of revenue scrip worth \$75; twenty books of non-revenue school bus passes; and 900 books of non-revenue commuter passes.
3. Additions to revenue scrip for the fiscal year ended October 31, 2000, included \$150,000 of scrip passes with numbers already on hand causing a duplication of preprinted scrip.
4. CCCD issues non-revenue scrip (free passes) for specific purposes defined in the revised statutes. Although CCCD does have individual forms authorizing the issuance of non-revenue scrip, CCCD does not maintain these forms in a manner that allows reconciliation between scrip authorized for issue and actual script issued. Furthermore, the lack of a perpetual inventory increases the risk that an error or theft could occur and not be detected in a timely manner. The division issued 654,447 student passes, 32,370 school bus passes, and 560 commuter passes during the fiscal year.

EXHIBIT B

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

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5. CCCD has 195,200 books of "grey" passes (commuter scrip valued at \$1 each) on hand that are no longer sold. Obsolete scrip should be destroyed in a proper manner.

These deficiencies occurred because CCCD did not assign responsibility for maintaining a perpetual scrip inventory system or performing periodic physical counts to anyone after the person who previously performed the tasks retired. Failure to maintain a proper perpetual inventory system and to reconcile the information in the system through periodic physical counts increases the risk that losses will occur and remain undetected.

Management should assign personnel to maintain a perpetual inventory of scrip and perform physical counts periodically to safeguard assets and detect and correct errors timely. Management concurred with the finding and stated that corrective action has been instituted (see Appendix A, page 5).

Inaccurate and Incomplete Financial Statements

CCCD did not prepare and submit accurate and complete financial statements for the fiscal year ended October 31, 2000, because of weaknesses in its controls over financial reporting. An adequate control system includes the review of the financial statements to ensure the accurate reporting of all assets and liabilities at year-end and the results of operations for the fiscal year. Errors detected during audit tests included the following:

- General Fund expenditures totaling \$256,000 were recorded and reported twice in the financial statements.
- General Fund accounts payable totaling \$329,995 were not recorded or reported in the financial statements.
- Total investments reported on Statement A of the financial statements did not equal investments disclosed in the notes to the financial statements because the investment note classified certain investments as cash equivalents and contained a \$91,000 addition error. Investments per the general ledger at October 31, 2000, were \$80,060,702, as reported on Statement A of the financial statements. However, the notes to the financial statements reported investments of \$2,962,815 and cash equivalents of \$77,188,887. In addition, the amount reported as cash equivalents contained a \$91,000 addition error.
- Debt Service Fund investments were reported in Statement A at cost instead of fair value as required by governmental accounting standards resulting in an overstatement of \$17,815.

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

Page 7

- Debt Service Fund interest income receivable of \$7,343 from investments was not recorded or reported.
- Capital Projects Fund cash in the state treasury totaling \$63,586 was not recorded or reported.
- The Capital Projects Fund reported a \$33,996 liability titled "Unearned State of Louisiana Grant" on Statement A. The account represented unexpended cash balances held in the state treasury. The \$33,996 error in cash in state treasury and designated fund balance is part of the \$63,586 error noted in the previous bullet.
- Expenditures in the Capital Projects Fund totaling \$287,277 were paid by DOTD before November 1, 2000; however, the accounts payable schedule reflected the amount as being owed to vendors.
- Capital Projects Fund expenditures totaling \$8,910 paid from CCCD cash in the state treasury were not recorded or reported.
- Capital Projects Fund accounts payable totaling \$14,671 were not recorded or reported in the financial statements.
- Capital Projects Fund expenditures totaling \$561,374 that were reimbursed by the federal government were not recorded or reported within CCCD's records and financial statements. These expenditures were recorded and reported by DOTD.
- Capital Projects Fund balance was not classified on Statement A as either reserved for construction or designated for projects.
- The General Fixed Asset Account Group asset and corresponding equity account were understated on Statement A by (a) a prior year audit adjustment to capitalize general fund expenditures totaling \$259,715 for work on the headquarters building; (b) unrecorded Capital Project Fund expenditures/payables totaling \$23,581 that should be capitalized; (c) unreported federally funded expenditures totaling \$561,374 that should be capitalized; and (d) federally funded expenditures in previous years totaling \$24,612,506 that should have been capitalized, but were recorded only within DOTD's financial records.

The financial statements were not adequately reviewed before they were submitted to the Division of Administration's Office of Statewide Reporting and Accounting Policy. Failure to adequately review the financial statements increases the risk that errors and

EXHIBIT B

LEGISLATIVE AUDITOR

CRESCENT CITY CONNECTION DIVISION DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Findings on Compliance and on Internal Control

Page 8

omissions may occur and not be detected or corrected in a timely manner. It also increases the risk that fraud may occur and not be detected in a timely manner. CCCD accepted certain adjusting entries to correct most of the errors noted previously and reissued the financial statements and related notes.

CCCD should establish controls that include an effective supervisory review of the financial statements to ensure that its financial statements and records are accurate and complete. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

Bank Account Not Reconciled to Accounting Records

CCCD did not reconcile its petty cash bank account to the accounting records from November 1999 through October 2000, until November 2000. During this period, the petty cash bank account deposits and disbursements were \$14,083 and \$14,521, respectively. Good internal control requires reconciliations of bank account balances to the accounting records on a monthly basis.

CCCD did not assign responsibility for reconciling the account to anyone after the person who previously performed the task retired. The lack of bank reconciliations increases the risk that errors or fraud could occur and not be detected in a timely manner.

CCCD should reconcile its petty cash bank account to the accounting records monthly. Management concurred with the finding stating that corrective action has been instituted (see Appendix A, page 7).

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



M. J. *MIKE* FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



KAM K. MOVASSAGHI
SECRETARY

March 30, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Failure to Enforce Toll Violation Law: We concur with this finding.
Corrective action is in progress and is being undertaken by our toll collection system integrator, Transcore, Inc. The corrective action will result in our ability to enforce the Toll Violation Law. The anticipated completion date is May 31, 2001.

If we can provide any additional information, please contact us.

Sincerely,


Alan L. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John H. Basilica
Mr. Gordon Nelson



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



M. J. "MIKE" FOSTER, JR.
GOVERNOR

KAM K. MOVASSAGHI
SECRETARY

March 29, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Incomplete Documentation for Toll Revenues: We concur with this finding. Corrective action is in progress and is being undertaken by our toll collection system integrator, Transcore, Inc. The corrective action will result in our ability to document toll revenues. The anticipated completion date is May 31, 2001.

If we can provide any additional information, please contact us.

Sincerely,

Alan J. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John Basilica
Mr. Gordon Nelson



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



KAM K. MOVASSAGHI
SECRETARY

March 29, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Lack of Documentation for Deferred Revenue: We concur with this finding. Corrective action is in progress and is being undertaken by our toll collection system integrator, Transcore, Inc. The corrective action will result in our ability to properly document deferred revenue. The anticipated completion date is May 31, 2001.

If we can provide any additional information, please contact us.

Sincerely,

Alan J. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John Basilica
Mr. Gordon Nelson



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



KAM K. MOVASSAGHI
SECRETARY

March 29, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Incomplete Accounting Records for Patron Deposits: We concur with this finding. Corrective action is in progress and is being undertaken by our toll collection system integrator, Transcore, Inc. The corrective Action will result in our ability to have complete accounting records for all patron deposits. The anticipated completion date is May 31, 2001.

If we can provide any additional information, please contact us.

Sincerely,

Alan J. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John Basilica
Mr. Gordon Nelson



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



KAM K. MOVASSAGHI
SECRETARY

March 29, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Control Weaknesses Over Inventory of Toll Scrip: We concur with this finding. Correction action has been instituted.

If we can provide any additional information, please contact us.

Sincerely,


Alan D. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John Basilica
Mr. Gordon Nelson



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

KAM K. MOVASSAGHI
SECRETARY

April 4, 2001


Dr. Daniel G. Kyle, CPA, CPE
Legislative Auditor
State of Louisiana
P O Box 94397
Baton Rouge, La. 70804

Dear Dr. Kyle:

Please allow this letter to serve as the Department of Transportation and Development's response to audit finding of Inaccurate and Incomplete Financial Statements as it relates to the activities of the Crescent City Connection Division for the fiscal year ended October 31, 2000.

DOTD concurs with the findings and recommendations of the Legislative Auditor. We have made changes to our monthly accounting process, which should eliminate these occurrences in the future. Adjustments in our procedures for the annual preparation of the financial statements are also planned which includes a greater level of review.

Sincerely,


Salvador F. Faldetta, CGFM
Financial Services Administrator

Cc: Mr. John Basilica, Jr.



M. J. *MIKE* FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
CRESCENT CITY CONNECTION DIVISION
Post Office Box 6297, New Orleans, Louisiana 70174-6297



KAM K. MOVASSAGHI
SECRETARY

March 29, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

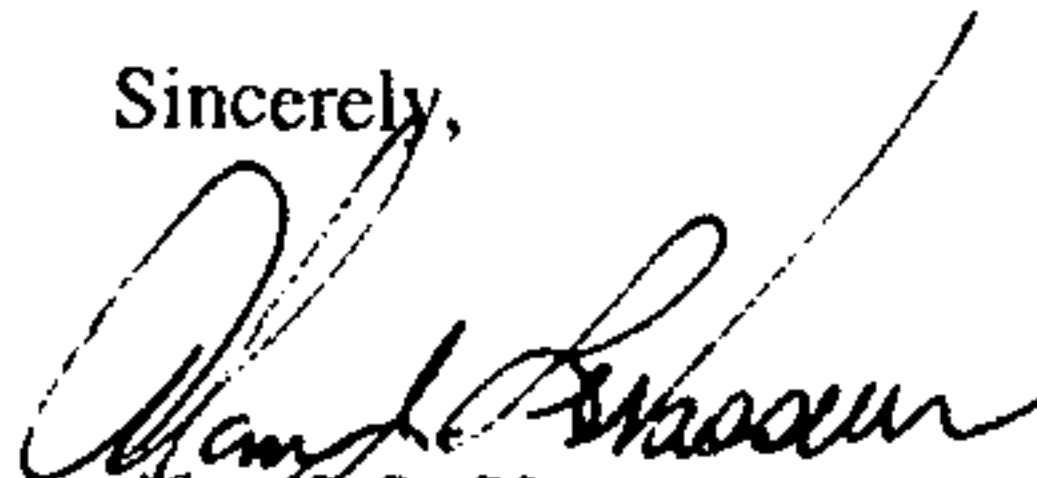
Dear Dr. Kyle:

This is in response to the audit findings reported in the audit of the Division for the year ended October 31, 2000.

Bank Account Not Reconciled to Accounting Records: We concur with this finding.
Corrective action has been instituted.

If we can provide any additional information, please contact us.

Sincerely,

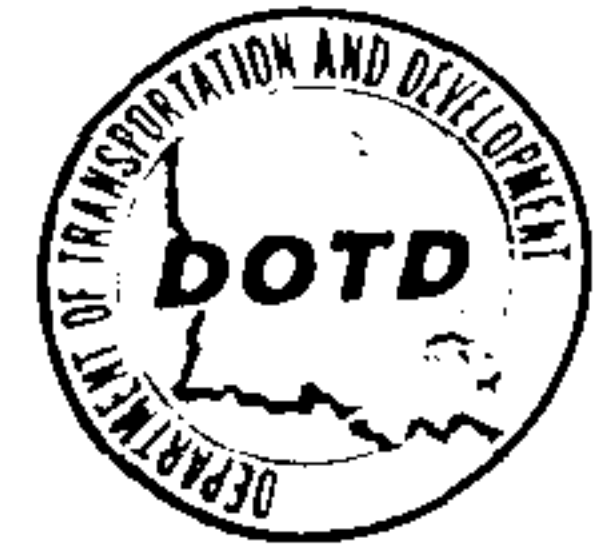


Alan J. LeVasseur
Executive Director

Cc: Dr. Kam K. Movassaghi, Ph.D., P.E.
Mr. John Basilica
Mr. Gordon Nelson



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

May 11, 2001

KAM K. MOVASSAGHI
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

Please accept this official response to the additional finding of your Office, relative to the audit of the Crescent City Connection Division of the Department of Transportation and Development. We strongly and categorically non concur with this finding.

Some time ago a comprehensive review of the existing toll system was initiated by management. Consultants were retained with the approval of the Division of Administration following a Request for Proposals to study the existing system and to investigate the technology available in the marketplace. The study found that the existing toll collection system would not operate beyond December 31, 1999 and made recommendations as to what type of system should replace the existing operations. Under the plenary powers vested to the Department by the Legislature, an engineering firm was retained for purposes of producing a Request for Proposals for a highly technical and sophisticated replacement system.

The Department invited competitive proposals as allowed by Louisiana Revised Statutes 39:1593^c from bona fide, qualified contractors interested in providing the installation of an integrated electronic toll collection system ("IETCS") to timely replace the existing toll collection system with the new system capable of, among other things, automatic vehicle identification ("AVI") and a video enforcement system ("VES"). The technical specifications were set forth in a Request for Proposals dated January 26, 1999.

A contract was subsequently executed, effective May 25, 1999, under which the contractor obligated itself to complete the design, fabrication, assembly, construction, testing, training, and installation of a viable IETCS no later than December 31, 1999. The contractor experienced numerous problems meeting the contract performance milestones in spite of the fact that the company was a recognized industry leader in the highly specialized area of IETCS. Management with the advice of counsel and the consulting engineer agreed to several supplemental agreements with the contractor to extend the contract time. In each case, the state received appropriate

Dr. Daniel G. Kyle

May 11, 2001

Page 2

consideration. The overarching rationale for these decisions (as opposed to placing the contractor in default) was in the interest of the shortest possible time to deliver an auditable system. Due to the highly customized (and proprietary) nature of the software and hardware components, a decision to place the contractor in default would have had the practical effect of starting over, and thus exacerbating the problem. In that the contractor continued to show good faith (without any additional compensation) and made progress during the term of each contract time extension, our decision was in the best interest of the soonest possible delivery of a system that met the original specifications.

As a result of management's vigilance in overseeing the contractor's performance, items of system hardware were replaced to improve system stability without cost to the State, including the servers on which the system operates, several series of reports were created to enable the audit and reconciliation process to be tracked accurately without cost to the State, and many software upgrades were developed and deployed to enhance system functionality without cost to the State.

Management employed prudent business practices and effectively upheld the State's legal contractual responsibilities in adequately assessing the probability of timely contractor performance and that management undertook appropriate action to mitigate losses to the State at each critical stage of this necessary project. At each critical juncture, management made an informed decision in what it determined to be in the best interests of the State after careful consideration of all pertinent facts.

With the value of hindsight, we now know that at each precipice we were faced with the prospect of resolving the outstanding issues related to the new system or undertaking a termination of the contract through protracted and costly default proceedings or a termination for convenience, either of which would have resulted in the manual collection of tolls and an exponential increase in the risk of misuse and theft. It was through management's attentiveness that the system cut-over was completed by December 31, 1999 so that complete plaza data would exist from January 1, 2000. It was management's responsible practices that ensured that the project would proceed not only with mitigation of potential losses to the State but with actual cost savings. It was management's insistence of the State's legal rights that has secured a viable toll system which has now demonstrated itself capable of accurately capturing and reporting traffic and other data to ensure that toll revenues are not lost. With each contract supplement, there was copious attention to detail in making sure payments were held in abeyance until payments were actually earned by the contractor and in ensuring that the State received some positive, tangible benefit in return for an extension of contract time.

The development of an alternative procedure to mitigate any potential losses of toll revenue and violation revenue, and to ensure accurate recording and reporting of these revenues, was not feasible. The only possible alternative procedure is the manual collection of tolls. Therefore, the suggested corrective action is not justified.

Dr. Daniel G. Kyle

May 11, 2001

Page 3

As the finding relates to the consulting engineers, it is correct that engineering consultants were retained for purposes of developing and preparing the requirements and technical specifications to implement the IETCS, and to evaluate bid proposals based on the technical specifications described in the Request for Proposals. For the development of the IETCS project, the consulting engineers played an indispensable and invaluable role. Needless to say, this project was not a typical construction project which could have been governed by standardized specifications. This project was and remains a highly technical, state-of-the-art system. The formulation of the specifics of the scope of services, schedules, technical requirements, existing conditions, methods for maintaining traffic during construction, materials to be ordered, equipment to be used, test plans and procedures, acceptance criteria, and the essential matters pertaining to the satisfactory development of the IETCS could not have occurred without the expertise of the consulting engineers.

Similarly, the installation of the IETCS project could not have proceeded without the know-how and experience of consulting engineers. Because of the highly technical and sophisticated nature of the IETCS's design, fabrication, assembly, construction, testing and installation, not to mention the many items of civil work associated with deployment of the IETCS, the retention of consulting engineers in accordance with the plenary powers of the Department was an absolute necessity to this vital project for purposes of monitoring site fabrication, installation, verifications, and start-up of equipment hardware, software and interfaces.

I fail to recognize the relevance of your statement regarding the ownership of the retained consulting firm.

Finally, I must advise you that the SAT of the IETCS began on May 8, 2001. As of date, there have been no anomalies. In addition, the reporting capabilities of the system have been greatly improved, with report generation occurring on a meaningful and consistent basis, and the performance scores are demonstrating excellent collector scores.

Management was and remains relentless in its pursuit of performance from the contractor. Your office was provided comprehensive and voluminous documentation which clearly demonstrated aggressive and thorough contract administration. To find that there had been a failure to enforce contract performance, particularly when the history of this project is replete with ample evidence to the contrary defies explanation.

Dr. Daniel G. Kyle
May 11, 2001
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If you have any questions or need any additional information, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kam K. Movassaghi'.

Kam K. Movassaghi, PhD, PE
Secretary

KKM:JBjr:mab